

Internal Revenue Service
Tax-Exempt & Government Entities Division
Office of Exempt Organizations
Draft Form 990 Redesign – Schedule C
June 14, 2007

Rationale

- Schedule C is comprised of questions related to political and lobbying activities. The first part of the schedule provides a roadmap which assists an organization in determining which parts of the schedule it may need to complete
- The lobbying questions generally reflect questions which were asked on former Schedule A
- The enhanced political activity questions reflect the Service's concern with the results of its Political Activity Compliance Initiative (PACI). These questions should make it easier for the organization to understand its obligations and for the Service to follow up in appropriate circumstances with a flexible array of compliance tools.
- Enhanced questions concerning inter-corporate transfers reflect the Service's concern about transfers of funds between section 501(c) and section 527 organizations, and the possible trend of section 527 organizations converting to section 501(c)(4) organizations.

Overview

- Part I – Political Campaign Activity
 - Part I-A (All organizations)
 - Requires written description of political campaign activities
 - Requires estimate of volunteer hours
 - Part I-B (§ 501(c)(3) organizations)
 - Requires reporting of section 4955 tax assessed on managers
Requires organization to indicate whether organization filed Form 4720
 - Provide description of any correction
 - Part I-C (§ 501(c) organizations (other than § 501(c)(3)))
 - Requires reporting of section 527 exempt function expenditures from organization's funds
 - Requires reporting of contributions to other organizations for section 527 exempt function
 - Requires reporting of payments to section 527 organizations including:
 - name, address and EIN of section 527 organization
 - amount paid from organization's funds
 - amount collected by organization on behalf of § 527 organization and promptly and directly transferred

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- Part II – Lobbying Activity
 - Part II-A (§ 501(c)(3) organizations that made § 501(h) election) – 2006 Form 990, Schedule A, Part II-A
 - Part II-B (§ 501(c)(3) organizations that did not make § 501(h) election) – 2006 Form 990, Schedule A, Part II-B
 - Requires reporting of section 4912 tax assessed on managers – 2006 Form 990, line 89b
 - Requires organization to indicate whether organization filed Form 4720
 - Requires section 501(c) organizations (other than § 501(c)(3)) to answer questions previously only required of § 501(c)(3) organizations and provide statements if yes
- Part III – Proxy Tax (§ 501(c)(4), (c)(5) and (c)(6) organizations) – 2006 Form 990, question 85

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20XX Instructions for Schedule C (Form 990)

Political Campaign and Lobbying Activities

I. General Instructions

A. Purpose of the Form

Schedule C is used by

- section 501(c) organizations, and
- section 527 organizations.

These organizations must use Schedule C to furnish additional information on political campaign or lobbying activities.

B. Who Must File

All organizations that answer “Yes” on Form 990, Part VIII, lines 1 or 2 must complete and attach Schedule C to Form 990.

If the organization is not required to file Form 990, it is not required to file Schedule C.

C. Period Covered

The filing organization’s Schedule C (Form 990) covers the same period as the Form 990 with which it is filed.

II. Specific Instructions

Schedule C is divided into three parts.

- Part I - Complete Part I if the organization had any political campaign activities and answered “Yes” to Form 990, Part IX, line 1.
- Part II - Complete Part II if the organization had any lobbying activities and answered “Yes” to Form 990, Part IX, line 2.
- Part III – Complete Part III if the organization is a section 501(c)(4), section 501(c)(5), or section 501(c)(6) organization.

A. Definition of Terms

1. **General Definition of Terms.** (Definitions in this section are applicable throughout this Schedule)

Political Campaign Activities: All activities that directly or indirectly support or oppose candidates for elective federal, state or local public office are political campaign activities. It does not matter whether the candidate is elected. A candidate is one who offers himself or is proposed by others for the public office. Political campaign activity does not include any activity intended to encourage participation in the

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electoral process, such as voter registration or voter education, provided that the activity does not directly or indirectly support or oppose any candidate.

TIP: Revenue Ruling 2007-41 provides guidelines for exempt organizations on the scope of the tax law prohibition of campaign activities by section 501(c)(3) organizations. (See Rev. Rul. 2007-41, 2007-25 I.R.B. (June 18, 2007)).

Political Expenditures: Any expenditure for political campaign activities are political expenditures. An expenditure includes a payment, distribution, loan, advance, deposit, or gift of money, or anything of value. It also includes a contract, promise, or agreement to make an expenditure, whether or not legally enforceable.

Lobbying Activities: All activities intended to influence foreign, national, state or local legislation are lobbying activities. Such activities include direct lobbying (attempting to influence the legislators) and grassroots lobbying (attempting to influence legislation by influencing the general public).

Legislation: Legislation includes action by Congress, any state legislature, any local council, or similar governing body with respect to acts, bills, resolutions, or similar items or by the public in referenda, ballot initiatives, constitutional amendments or similar procedures. It does not include actions by executive, judicial or administrative bodies.

Specific Legislation: Specific legislation includes (1) legislation that has already been introduced in a legislative body and (2) specific legislative proposals that an organization either supports or opposes.

2. **Part II-A - Definition of Terms.** (Definitions in this section are applicable only to Part II-A of this Schedule)

Expenditure Test. Under the expenditure test, there are limits both upon the amount of the organization's grassroots lobbying expenditures and upon the total amount of its direct lobbying and grassroots lobbying expenditures. If the electing public charity does not meet this expenditure test, it will owe a section 4911 excise tax on its excess lobbying expenditures. Moreover, if over a 4-year averaging period the organization's average annual total lobbying or grassroots lobbying expenditures are more than 150% of its dollar limits, the organization will lose its exempt status.

Exempt purpose expenditures: The amount an electing public charity may spend on lobbying (without incurring tax) is a scaled percentage of the organization's exempt purpose expenditures. In general, an exempt purpose expenditure is paid or incurred by an electing public charity to accomplish the organization's exempt purpose.

In general, exempt purpose expenditures are:

1. The total amount paid or incurred for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals, or to foster national or international amateur sports competition (not including providing athletic facilities or equipment, other than by qualified amateur sports organizations described in section 501(j)(2)),
2. The allocable portion of administrative expenses paid or incurred for the above purposes,
3. Amounts paid or incurred to try to influence legislation, whether or not for the purposes described in 1 above,
4. Allowance for depreciation or amortization, and
5. Fundraising expenditures, except that exempt purpose expenditures do not include amounts paid to or incurred for either the organization's separate fundraising unit or other organizations, if the amounts are primarily for fundraising.

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See Regulations section 56.4911-4(c) for a discussion of excluded expenditures.

Lobbying expenditures. *Lobbying expenditures* are expenditures paid or incurred for the purpose of attempting to influence legislation:

- Through communication with any member or employee of a legislative or similar body, or with any government official or employee who may participate in the formulation of the legislation, and
- By attempting to affect the opinions of the general public.

To determine if an organization has spent excessive amounts on lobbying, the organization must know which expenditures are lobbying expenditures and which are not lobbying expenditures. An electing public charity's lobbying expenditures for a year are the sum of its expenditures during that year for (1) direct lobbying communications (direct lobbying expenditures) plus (2) grassroots lobbying communications (grassroots expenditures).

Direct lobbying communications (direct lobbying expenditures). A direct lobbying communication is any attempt to influence any legislation through communication with any:

- Member or employee of a legislative or similar body, or
- Government official or employee (other than a member or employee of a legislative body) who may participate in the formulation of the legislation, but only if the principal purpose of the communication is to influence legislation.

A communication with a legislator or government official will be treated as a direct lobbying communication, if, but only if, the communication:

- Refers to specific legislation, and
- Reflects a view on such legislation.

Grassroots lobbying communications (grassroots expenditures). A grassroots lobbying communication is any attempt to influence any legislation through an attempt to affect the opinions of the general public or any part of the general public.

A communication is generally not a grassroots lobbying communication unless (in addition to referring to specific legislation and reflecting a view on that legislation) it encourages recipients to take action about the specific legislation.

A communication encourages a recipient to take action when it:

1. States that the recipient should contact legislators;
2. States a legislator's address, phone number, etc.;
3. Provides a petition, tear-off postcard, or similar material for the recipient to send to a legislator; or
4. Specifically identifies one or more legislators who:
 - a. Will vote on legislation;
 - b. Opposes the communication's view on the legislation;
 - c. Is undecided about the legislation;
 - d. Is the recipient's representative in the legislature; or
 - e. Is a member of the legislative committee that will consider the legislation.

A communication described in (4) above generally is grassroots lobbying only if, in addition to referring to and reflecting a view on specific legislation, it is a communication that cannot meet the full and fair exposition test as nonpartisan analysis, study, or research.

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Exceptions to Lobbying

In general, engaging in nonpartisan analysis, study, or research and making its results available to the general public or segment or members thereof, or to governmental bodies, officials, or employees is not considered either a direct lobbying communication or a grassroots lobbying communication. Nonpartisan analysis, study, or research may advocate a particular position or viewpoint as long as there is a sufficiently full and fair exposition of the pertinent facts to enable the public or an individual to form an independent opinion or conclusion.

A communication that responds to a governmental body's or committee's written request for technical advice is not a direct lobbying communication.

A communication is not a direct lobbying communication if the communication is an appearance before, or communication with, any legislative body concerning action by that body that might affect the organization's existence, its powers and duties, its tax-exempt status, or the deductibility of contributions to the organization, as opposed to affecting merely the scope of the organization's future activities.

Communication with members. For purposes of section 4911, expenditures for certain communications between an organization and its members are treated more leniently than are communications to nonmembers. Expenditures for a communication that refers to, and reflects a view on, specific legislation are not lobbying expenditures if the communication satisfies the following requirements:

1. The communication is directed only to members of the organization,
2. The specific legislation the communication refers to, and reflects a view on, is of direct interest to the organization and its members,
3. The communication does not directly encourage the member to engage in direct lobbying (whether individually or through the organization), and
4. The communication does not directly encourage the member to engage in grassroots lobbying (whether individually or through the organization).

Expenditures for a communication directed only to members that refers to, and reflects a view on, specific legislation and that satisfies the requirements of paragraphs 1, 2, and 4, but does not satisfy the requirements of paragraph 3, are treated as expenditures for direct lobbying.

Expenditures for a communication directed only to members that refers to, and reflects a view on, specific legislation and satisfies the requirements of paragraphs 1 and 2, but does not satisfy the requirements of paragraph 4, are treated as grassroots expenditures, whether or not the communication satisfies the requirements of paragraph 3. See Regulations section 56.4911-5 for details.

There are special rules regarding certain paid mass media advertisements about highly publicized legislation; allocation of mixed purpose expenditures; certain transfers treated as lobbying expenditures and special rules regarding lobbying on referenda, ballot initiatives, and similar procedures (see Regulations sections 56.4911-2 and -3).

Affiliated Groups. Members of an affiliated group are treated as a single organization to measure lobbying expenditures and permitted lobbying expenditures. Two organizations are affiliated if one is bound by the other organization's decisions on legislative issues (control) or if enough representatives of one belong to the other organization's governing board to cause or prevent action on legislative issues (interlocking directorate). If the organization is not sure whether its group is affiliated, it may ask the IRS for a ruling letter. There is a fee for this ruling. For information on requesting rulings, see annual revenue procedure.

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Members of an affiliated group measure both lobbying expenditures and permitted lobbying expenditures on the basis of the affiliated group's tax year. If all members of the affiliated group have the same tax year, that year is the tax year of the affiliated group. However, if the affiliated group's members have different tax years, the tax year of the affiliated group is the calendar year, unless all the members of the group elect otherwise. See Regulations section 56.4911-7(e)(3).

Limited Control. Two organizations that are affiliated because their governing instruments provide that the decisions of one will control the other only on national legislation are subject to the following provisions:

- Charge the controlling organization with its own lobbying expenditures and the national legislation expenditures of the affiliated organizations.
- Do not charge the controlling organization with other lobbying expenditures (or other exempt-purpose expenditures) of the affiliated organizations, and
- Treat each local organization as though it were not a member of an affiliated group. For example, the local organization should account for its own expenditures only and not any of the national legislation expenditures deemed as incurred by the controlling organization.

3. **Part III - Definition of Terms.** (Definitions in this section are applicable only to Part III of this Schedule)

Lobbying and Political Expenditures: For purposes of this section only, lobbying and political expenditures do not include direct lobbying expenditures made to influence local legislation. Nor does it include any political campaign expenditures for which the tax under section 527(f) was paid. (see Part I-C). They do include any expenditures for communications with a covered executive branch official in an attempt to influence the official actions or positions of that official.

Covered Executive Branch Official: The President, Vice-President, White House Office of the Executive Office of the President officers and employees, the two senior level officers of each of the other agencies in the Executive Office, individuals in level I positions of the Executive Schedule and their immediate deputies, and individuals designated as having Cabinet level status and their immediate deputies.

Direct contact lobbying is a

- Meeting
- Telephone conversation,
- Letter, or
- Similar means of communication that is with a
 - Legislator (other than a local legislator), or
 - Covered executive branch official and that otherwise qualifies as a lobbying activity.

In-house expenditures include:

- Salaries, and
- Other expenses of the organization's officials and staff (including amounts paid or incurred for the planning of legislative activities).

In-house expenditures do not include:

- Any payments to other taxpayers engaged in lobbying or political activities as a trade or business.

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- Any dues paid to another organization that are allocable to lobbying or political activities.

B. Directions to Complete the Schedule

1. If organization answered “Yes” to Form 990, Part VIII, Line 1 (Political Campaign Activities) then:

A section 501(c)(3) organization must complete Part I-A and Part I-B. Do not complete Part I-C.

A section 501(c) organization *other than* section 501(c)(3) must complete Part I-A and Part I-C. Do not complete Part I-B.

A section 527 organization must complete Part I-A. Do not complete Parts I-B and Part I-C.

2. If organization answered “Yes” to Form 990, Part VIII, Line 2 (Lobbying Activities), then:

Section 501(c)(3) organizations that elected to be subject to the lobbying expenditure limitations of section 501(h) by filing Form 5768 and for which the election was valid and in effect for its tax year beginning in the year 20XX must complete Part II-A. Do not complete Part II-B.

Section 501(c)(3) organizations that have NOT elected (or have revoked such election by filing Form 5768 for which the revocation was valid and in effect for its tax year beginning in the year 20XX) must complete Part II-B. Do not complete Part II-A.

Section 501(c) organizations *other than* section 501(c)(3) must complete Part II-B. Do not complete Part II-A.

3. Political and Lobbying Activities (Part III).

Section 501(c)(4), 501(c)(5), or 501(c)(6) organizations must complete Part III.

PART I-A Political Campaign Activity

Line 1. Provide a detailed description of the organization’s direct and indirect political campaign activities. For organizations other than section 501(c)(3) organizations, political campaign activities also include activities that support or oppose candidates for appointive federal, state, or local public office or office in a political party. If additional space is needed, attach a separate sheet.

Line 2. The total amount that the filing organization has spent conducting the activities described on line 1.

Line 3. If the organization used volunteer labor in the conduct of its political campaign activities, provide the total number of hours.

PART I-B Section 501(c)(3) Organizations: Disclosure of Excise Taxes Imposed Under Section 4955

Section 501(c)(3) organizations must disclose any excise tax imposed during the year under section 4955 (political expenditures), unless abated. See sections 4962 and 6033(b).

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Line 1. Enter the amount of taxes imposed on the organization itself under section 4955, unless abated.

Line 2. Enter the amount of taxes imposed on the organization managers under section 4955, unless abated.

Line 3. Form 4720 If the filing organization reported a section 4955 tax on a Form 4720 for this year, answer "Yes."

Line 4 Correction Provide a detailed description of the steps the organization has taken to correct the activity which subjected the organization to the section 4955 tax. Correction of a political expenditure means recovering the expenditure to the extent possible and establishing safeguards to prevent future political expenditures. Recovery of the expenditure means recovering part or all of the expenditure to the extent possible, and, where full recovery cannot be accomplished, by any additional corrective action that is necessary. (The organization that made the political expenditure is not under any obligation to attempt to recover the expenditure by legal action if the action would in all probability not result in the satisfaction of execution on a judgment.) If additional space is needed, attach a separate sheet.

PART I-C

For purposes of this section, political campaign activities include activities that support or oppose candidates for appointive federal, state, or local public office or office in a political party. (See definitions section of this schedule.)

Line 1. Enter the amount of its own funds that the organization expended for political campaign activities.

Line 2. Enter the amount of its own funds that the organization transferred to other organizations, including a separate segregated section 527(f)(3) fund created by the organization, for political campaign activities.

Line 3. Total of direct and indirect exempt function expenditures. Add lines 1 and 2 and enter on line 3 and on Form 1120-POL, line 17b.

Line 4. If the filing organization reported taxable political expenditures on Form 1120-POL for this year, answer "Yes."

Line 5. State the names, addresses and Employer Identification Number (EIN) of all section 527 political organizations to which payments were made. Enter the amount paid and indicate if the amount was paid from the filing organization's own internal funds or were political contributions received and promptly and directly delivered to a separate political organization, such as a separate segregated fund or a political action committee (PAC). If additional space is needed, attach a separate sheet.

PART II-A Lobbying Activity - Section 501(c)(3) organizations that filed Form 5768 (election under section 501(h))

A public charity that makes a valid section 501(h) election may spend up to a certain percentage of its exempt purpose expenditures to influence legislation without incurring tax or losing its tax-exempt status.

Complete lines 1a through 1i in column (a) for any organization using Part II-A, but complete column (b) only for affiliated groups.

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If the filing organization belongs to an affiliated group, check Part II-A box A and complete lines 1a through 1i:

- Column (a) for the electing member of the group, and
- Column (b) for the affiliated group as a whole.

Attached schedule. Attach a schedule showing each affiliated group member's name, address, EIN, and expenses. Show which members elected and which did not.

Include each electing member's share of the excess lobbying expenditures on the attached schedule.

Non-electing members do not owe tax, but remain subject to the general rule, which provides that no substantial part of their activities may consist of carrying on propaganda or otherwise trying to influence legislation.

If the filing organization checked box A and the "limited control" provisions apply to the organizations, each member of the affiliated group should check box B and complete column (a) only.

If the organization does not check box A do not check box B.

Lines 1a-i are used to determine whether any of the organization's current year lobbying expenditures are subject to tax under section 4911. File Form 4720 if the organization needs to report and pay the excise tax.

Line 1a. Grassroots Lobbying - Enter the amount of its own funds the organization expended for grassroots lobbying communications.

Line 1b. Direct Lobbying - Enter the amount of its own funds the organization expended for direct lobbying communications.

Line 1c. Total Lobbying – Add lines 1a and 1b.

Line 1d . Other Exempt Purpose Expenditures - Enter all other amounts (excluding lobbying) the organization expended to accomplish its exempt purpose.

Line 1e. Exempt Purpose Expenditures - Add lines 1c and 1d. This is the organization's total exempt purpose expenditures.

If there are no excess lobbying expenditures on either line 1h or 1i of column (b), treat each electing member of the affiliated group as having no excess lobbying expenditures. However, if there are excess lobbying expenditures on either line 1h or 1i of column (b), treat each electing member as having excess lobbying expenditures. In such case, each electing member must file Form 4720, Return of Certain Excise Taxes Under Chapters 41 and 42 of the Internal Revenue Code, and must pay the tax on its proportionate share of the affiliated group's excess lobbying expenditures. Enter the proportionate share in column (a) on line 1h or line 1i, or on both lines. Attach the schedule described above under **Attached Schedule**. Show what amounts apply to each group member. To find a member's proportionate share, see Regulations section 56.4911-8(d).

Line 1j. If the filing organization reported section 4911 tax on Form 4720 for this year, answer "Yes."

Line 2. Line 2 is used to determine if the organization exceeded lobbying expenditure limits during the 4-year averaging period.

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Any organization for which a lobbying expenditure election under section 501(h) was in effect for its tax year beginning in 20XX must complete columns (a) through (e) of lines 2a through 2f except in the following situations.

1. An organization first treated as a section 501(c)(3) organization in its tax year beginning in 20XX does not have to complete any part of lines 2a through 2f.
2. An organization does not have to complete lines 2a through 2f for any period before it is first treated as a section 501(c)(3) organization.
3. If 20XX is the first year for which an organization's first section 501(h) election is effective, that organization must complete line 2a, columns (a) and (e). The organization must then complete all of column (e) to determine whether the amount on line 2c, column (e), is equal to or less than the lobbying ceiling amount calculated on line 2b and whether the amount on line 2f is equal to or less than the grassroots ceiling amount calculated on line 2e. The organization does not satisfy both tests if either its total lobbying expenditures or grassroots lobbying expenditures exceed the applicable ceiling amounts. When this occurs, all five columns must be completed and a re-computation made unless exception 1 or 2 above applies.
4. If 20XX is the second or third tax year for which the organization's first section 501(h) election is in effect, that organization is required to complete only the columns for the years in which the election has been in effect, entering the totals for those years in column (e). The organization must determine, for those 2 or 3 years, whether the amount entered in column (e), line 2c, is equal to or less than the lobbying ceiling amount reported on line 2b, and whether the amount entered in column (e), line 2f, is equal to or less than the grassroots ceiling amount calculated on line 2e. The organization does not satisfy both tests if either its total lobbying expenditures or grassroots lobbying expenditures exceed applicable ceiling amounts. When that occurs, all five columns must be completed and a re-computation made, unless exception 1 or 2 above applies. If the organization is not required to complete all five columns, attach a statement explaining why. In the statement, show the ending date of the tax year in which the organization made its first section 501(h) election and state whether or not that first election was revoked before the start of the organization's tax year that began in 20XX.

Note. If the organization belongs to an **affiliated group**, enter the appropriate affiliated group totals from column (b), lines 1a through 1i, when completing lines 2a, 2c, 2d, and 2f.

Line 2a. Lobbying nontaxable amount. For 20XX through 20XX, enter the amount from line 1f of Schedule C filed for each year.

Line 2c. Total lobbying expenditures. For 20XX through 20XX, enter the amount from line 1c of Schedule C filed for each year.

Line 2d. Grassroots nontaxable amount. For 20XX through 20XX, enter the amount from line 1g of Schedule C filed for each year.

Line 2f. Grassroots lobbying expenditures. For 20XX through 20XX, enter the amount from line 1a of Schedule C filed for each year.

Add each row of column (a) through (d) and put the total in column (e)

PART II-B

Lobbying Activity by Non-electing Public Charities and other Exempt Organizations

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Part II-B provides a reporting format for any section 501(c)(3) organization that engaged in lobbying activities in its 20XX tax year but did not make a section 501(h) lobbying expenditure election for that year by filing Form 5768 as well as for other section 501(c) organizations. The Part II-A instructions defining direct and grassroots lobbying activities by organizations that made the section 501(h) election do not apply to organizations that complete Part II-B.

Non-electing section 501(c)(3) organizations must complete both columns (a) and (b) of Part II-B to show lobbying expenditures paid or incurred. Other section 501(c) organizations need only answer yes or no in column (a) and do not need to provide the amounts expended in column (b).

NOTE:

A non-electing organization will generally be regarded as lobbying if the organization either: (1) contacts, or urges the public to contact, members of a legislative body for the purpose of proposing, supporting, or opposing legislation or the government's budget process; or (2) advocates the adoption or rejection of legislation.

Organizations should answer "Yes" or "No" in column (a) to questions 1a through 1i and attach a statement describing the activities the organization conducted (either through its employees or volunteers) attempting to influence legislation. Examples of activities include:

- Sending letters or publications to government officials or legislators,
- Meeting with or calling government officials or legislators,
- Sending or distributing letters or publications (including newsletters, brochures, etc.) to members or to the general public, or
- Using direct mail, placing advertisements, issuing press releases, holding news conferences, or holding rallies or demonstrations.

Additionally, non-electing section 501(c)(3) organizations must provide lobbying expenditures paid or incurred in column (b) for lines 1b through line 1i with the total expenditures provided on line 1j.

Line 1f. Grants to other organizations are amount from the organization's own internal funds given to another organization for the purpose of assisting the other organization conduct lobbying activities.

Line 1g. Direct contact is a personal telephone call or visit with legislators, their staffs, or government officials.

Line 1h. Public forums include but are not limited to rallies, demonstrations, seminars, conventions, speeches, and lectures conducted directly by the organization or paid for out of the organization's own internal funds.

Line 1i. Provide a detailed description of any other activity that the organization engaged in to influence legislation. The description should include all lobbying activities, whether expenses are incurred or not (for example, even lobbying activities carried out by unreimbursed volunteers). If additional space is needed, attach a separate sheet.

Line 2a. Answer "Yes" if a section 501(c)(3) organization ceased to be described as a section 501(c)(3) organization because the amount on line 1j was substantial.

Line 2b. For line 2a, enter the amount of taxes, if any, imposed on the organization itself under section 4912, unless abated.

Line 2c. For line 2, enter the amount of taxes, if any, imposed on the organization managers under section 4912, unless abated.

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Line 2d. Form 4720 If the filing organization reported a section 4912 tax on a Form 4720 for this year, answer “Yes.”

PART III - Section 6033(e) Notice and Reporting Requirements and Proxy Tax.

Reporting membership dues, lobbying, and political expenses under section 6033(e). Only certain organizations that are tax-exempt under:

- Section 501(c)(4) (social welfare organizations),
- Section 501(c)(5) (agricultural and horticultural organizations), or
- Section 501(c)(6) (business leagues)

are subject to (a) the section 6033(e) notice and reporting requirements, and (b) a potential proxy tax. These organizations must report their total lobbying expenses, political expenses, and membership dues, or similar amounts.

Section 6033(e) requires certain section 501(c)(4), (5), and (6) organizations to tell their members what portion of their membership dues were allocable to the political or lobbying activities of the organization. If an organization does not give its members this information, then the organization is subject to a proxy tax. This tax is reported on Form 990-T.

PART III-A

Line 1. Section 6033(e)(3) exceptions for organizations whose dues are nondeductible. Answer “Yes” if any of the following exemptions apply. By doing so, the organization is declaring that substantially all of its membership dues were nondeductible.

1. Local associations of employees’ and veterans’ organizations described in section 501(c)(4), but not section 501(c)(4) social welfare organizations.
2. Labor unions and other labor organizations described in section 501(c)(5), but not section 501(c)(5) agricultural and horticultural organizations.
3. Section 501(c)(4), (5), and (6) organizations that receive more than 90% of their dues from:
 - a. Organizations exempt from tax under section 501(a), other than section 501(c)(4), (5), and (6) organizations,
 - b. State or local governments,
 - c. Entities whose income is exempt from tax under section 115, or
 - d. Organizations described in 1 or 2, above.
4. Section 501(c)(4) and (5) organizations that receive more than 90% of their annual dues from:
 - a. Persons,
 - b. Families, or
 - c. Entities,who each paid annual dues of \$\$\$\$ or less in 20## (adjusted annually for inflation). See annual revenue procedure.
5. Any organization that receives a private letter ruling from the IRS stating that the organization satisfies the section 6033(e)(3) exception.
6. Any organization that keeps records to substantiate that 90% or more of its members cannot deduct their dues (or similar amounts) as business expenses whether or not any part of their dues are used for lobbying purposes.
7. Any organization that is not a membership organization.

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CAUTION! Special rules treat affiliated social welfare organizations, agricultural and horticultural organizations, and business leagues as parts of a single organization for purposes of meeting the nondeductible dues exception. See Rev. Proc. 98-19, 1998-1 C.B. 547.

Line 2. Section 6033(e)(1) \$2,000 in-house lobbying exception. Answer “Yes” for line 2 if the organization satisfies the following criteria of the \$2,000 in-house lobbying exception.

1. Did not make any political expenditures or foreign lobbying expenditures during the 20XX reporting year, and
2. Made lobbying expenses during the 20XX reporting year consisting only of in-house direct lobbying expenses totaling \$2,000 or less, but excluding:
 - a. Any allocable overhead expenses, and
 - b. All direct lobbying expenses of any local council regarding legislation of direct interest to the organization or its members.

If the organization’s in-house direct lobbying expenditures during the 20XX reporting year were \$2,000 or less, but the organization also paid or incurred other lobbying or political expenditures during the 20XX reporting year, it should answer “No” to question 2. If the organization is required to complete PART III-B, the \$2,000 or less of in-house direct lobbying expenditures should not be included in the total on line 2a.

Line 3. Lobbying and Political Expenses Carryover. Answer “Yes” for line 3 if the organization on its prior year report agreed to carryover an amount to be included in the current year’s reasonable estimate of lobbying and political expenses.

Complete PART III-B only if the organization answered “No” to BOTH Line 1 and Line 2 OR if the organization answered “Yes” to Line 3.

PART III-B – Dues Notice, Reporting Requirements, and Proxy Tax

Dues notices. An organization that checked “No” for both PART III-A, lines 1 and 2, and is thus responsible for completing Part III-B, must send dues notices to its members at the time of assessment or payment of dues, unless the organization chooses to pay the proxy tax instead of informing its members of the nondeductible portion of its dues. These dues notices must reasonably estimate the dues allocable to the nondeductible lobbying and political expenditures reported on line PART III-B, line 2a. An organization that checked “Yes” for PART III-A, line 3, must send dues notices to its members at the time of assessment or payment of dues and include the amount it agreed to carryover in its reasonable estimate of the dues allocable to the nondeductible lobbying and political expenditures reported on line PART III-B, line 2a.

IF...	THEN...
The organization’s lobbying and political expenses are more than its membership dues for the year,	The organization must: (a) Allocate all membership dues to its lobbying and political activities, and (b) Carry forward any excess lobbying and political expenses to the next tax year.
The organization: (a) Had only <i>de minimis</i> in-house expenses (\$2,000 or less) and no other nondeductible lobbying or political expenses (including any amount it agreed to carryover); or (b) Paid a proxy tax, instead of notifying its members on the allocation of dues to lobbying and political expenses; or	The organization need not disclose to its membership the allocation of dues, etc., to its lobbying and political activities.

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(c) Established that substantially all of its membership dues, etc., are not deductible by members.	
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Members of the organization cannot take a trade or business expense deduction on their tax returns for the portion of their dues, etc., allocable to the organization's lobbying and political activities.

Proxy Tax

IF...	THEN...
The organization's actual lobbying and political expenses are more than it estimated in its dues notices,	The organization is liable for a proxy tax on the excess.
The organization: (a) Elects to pay the proxy tax, and (b) Chooses not to give its members a notice allocating dues to lobbying and political campaign activities,	All the members' dues remain eligible for a section 162 trade or business expense deduction.
The organization: (a) Makes a reasonable estimate of dues allocable to nondeductible lobbying and political activities, and (b) Agrees to adjust its estimate in the following year*. (*A facts and circumstances test determines whether or not a reasonable estimate was made in good faith.)	The IRS may permit a waiver of the proxy tax.

Allocation of costs to lobbying activities and influencing legislation. An organization that is subject to the lobbying disclosure rules of section 6033(e) must use a reasonable allocation method to determine its total costs of its direct lobbying activities; that is, costs to influence:

- Legislation, and
- The actions of a covered executive branch official through direct communication (for example, President, Vice President, or cabinet-level officials, and their immediate deputies) (sections 162(e)(1)(A) and (D)).

Reasonable methods of allocating costs to direct lobbying activities include, but are not limited to:

- The ratio method,
- The gross-up and alternative gross-up methods, and
- A method applying the principles of section 263A.

See Regulations sections 1.162-28 and 1.162-29 and the special rules and definitions for these allocation methods given below.

An organization that is subject to the lobbying disclosure rules of section 6033(e) must also determine its total costs of:

- *De minimis* in-house lobbying,
- Grassroots lobbying, and
- Political campaign activities.

There are no special rules related to determining these costs.

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All methods. For all the allocation methods, include labor hours and costs of personnel whose activities involve significant judgment with respect to lobbying activities (lobbying personnel).

Special rules:

Ratio and gross-up methods.

1. May use even if volunteers conduct activities.
2. May disregard labor hours and costs of clerical or support personnel (other than lobbying personnel) under the ratio method.

Alternative gross-up method.

- Disregard labor hours, and
- Costs of clerical or support personnel (other than lobbying personnel).

Third-party costs are those paid to:

- Outside parties for conducting lobbying activities,
- Dues paid to another membership organization that were declared to be nondeductible lobbying expenses, and
- Travel and entertainment costs for lobbying activities.

Direct contact lobbying: Treat all hours spent by a person in connection with direct contact lobbying as labor hours allocable to lobbying activities.

Do not treat the hours spent by a person who engages in research and other background activities related to direct contact lobbying, but who makes no direct contact with a legislator, or covered executive branch official, as direct contact lobbying.

De minimis rule. If less than 5% of a person's time is spent on lobbying activities, and there is no direct contact lobbying, an organization may treat that person's time spent on lobbying activities as zero.

Purpose for engaging in an activity is based on all the facts and circumstances. If an organization's lobbying communication was for a lobbying and a non-lobbying purpose, the organization must make a reasonable allocation of costs to influencing legislation.

Correction of prior year lobbying costs. If in a prior year, an organization treated costs incurred for a future lobbying communication as a lobbying cost to influence legislation, but after the organization filed a timely return, it appears the lobbying communication will not be made under any foreseeable circumstance, the organization may apply these costs to reduce its current year's lobbying costs, but not below zero. The organization may carry forward any amount of the costs not used to reduce its current year's lobbying costs to subsequent years.

Example: Ratio method. X Organization incurred:

1. 6,000 labor hours for all activities,
2. 3,000 labor hours for lobbying activities (three employees),
3. \$300,000 for operational costs, and
4. No third-party lobbying costs.

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X Organization allocated its lobbying costs as follows:

Lobbying labor hrs.					
<u>3,000</u>	×	\$300,000	+	0	= \$150,000
6,000					
Total labor hrs.		Total costs of operations		Allocable third-party costs	Costs allocable to lobbying activities

Examples: Gross-up method and Alternative gross-up method.

A and B are employees of Y Organization.

1. A's activities involve significant judgment with respect to lobbying activities.
2. A's basic lobbying labor costs (excluding employee benefits) are \$50,000.
3. B performs clerical and support activities for A.
4. B's labor costs (excluding employee benefits) in support of A's activities are \$15,000.
5. Allocable third-party costs are \$100,000.

If Y Organization uses the gross-up method to allocate its lobbying costs, Y multiplies 175% times its basic labor costs (excluding employee benefits) for all of the lobbying of its personnel and adds its allocable third-party lobbying costs as follows:

175%	×	\$65,000	+	\$100,000	=	\$213,750
Basic lobbying labor costs of A + B				Allocable third-party costs		Costs allocable to lobbying activities

If Y Organization uses the alternative gross-up method to allocate its lobbying costs, Y multiplies 225% times its basic labor costs (excluding employee benefits) for all of the lobbying hours of its lobbying personnel and adds its third-party lobbying costs as follows:

225%	×	\$50,000	+	\$100,000	=	\$212,500
Basic lobbying labor costs of A				Allocable third-party costs		Costs allocable to lobbying activities

Section 263A cost allocation method.

The examples that demonstrate this method are found in Regulations section 1.162-28(f).

Line 1. Dues, Assessments, And Similar Amounts Received

Enter the total dues, assessments, and similar amounts allocable to the 20XX reporting year. Dues are the amounts the organization requires a member to pay in order to be recognized as a member.

Payments that are similar to dues include:

1. Members' voluntary payments,
2. Assessments to cover basic operating costs, and
3. Special assessments to conduct lobbying and political activities.

Line 2. Lobbying and Political Expenditures

Include on line 2a the total amount of expenses paid or incurred during the 20XX reporting year in connection with:

1. Influencing legislation;
2. Participating or intervening in any political campaign on behalf of (or in opposition to) any candidate for any public office;

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3. Attempting to influence any segment of the general public with respect to elections, legislative matters, or referendums; or
4. Communicating directly with a covered executive branch official in an attempt to influence the official actions or positions of such official.

Do not include:

1. Any direct lobbying of any local council or similar governing body with respect to legislation of direct interest to the organization or its members.
2. In-house direct lobbying expenditures, if the total of such expenditures is \$2,000 or less (excluding allocable overhead).
3. Political expenditures for which the section 527(f) tax has been paid (on Form 1120-POL).

Reduce the current year's lobbying expenditures, but not below zero, by costs previously allocated in a prior year to lobbying activities that were cancelled after a return reporting those costs was filed.

Carry forward any amounts not used as a reduction to subsequent years.

Include on line 2b:

1. Lobbying and political expenditures carried over from the preceding tax year.
2. An amount equal to the taxable lobbying and political expenditures reported on line 5 for the preceding tax year, if the organization received a waiver of the proxy tax imposed on that amount.

Line 3. Dues Declared Nondeductible In Notices To Members

Enter the total amount of dues, etc., allocable to the 20XX reporting year that members were notified were nondeductible under section 162(e).

Example:

- Membership dues: \$100,000 for the 20XX reporting year,
- Organization's timely notices to members—25% of membership dues nondeductible, and
- Line 3 entry—\$25,000.

Line 4. Carryover Lobbying and Political Expenditure to Next Year.

If the amount on line 2c exceeds the amount on line 3 and the organization sent dues notices to its members at the time of assessment or payment of dues, include the amount on line 4 that the organization agrees to carryover to the reasonable estimate of nondeductible lobbying and political expenditure next year and include the amount on PART III-B, line 2b (carryover lobbying & political expenses), or its equivalent, on the next year Form 990, Schedule C.

If the organization did not send notices to its members, enter zero on line 4.

Line 5. Taxable Lobbying and Political Expenditures (Proxy Tax)

The taxable amount reportable on line 5 is the amount of dues, etc.:

1. Allocable to the 20XX reporting year, and
2. Attributable to lobbying and political expenditures that the organization did not timely notify its members were nondeductible.

Report the tax on Form 990-T.

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If the amount on line 1 (dues, etc.) is greater than the amount on line 2c (lobbying & political expenses), then:

Line 2c (lobbying & political expenses)
Less
Line 3 (dues shown in notices)
Less
Line 4 (carryover)
Equals
Line 5 (taxable lobbying & political expenses)

If the amount on line 1 (dues, etc.) is less than the amount on line 2c (lobbying & political expenses), then:

Line 1 (dues, etc.)
Less
Line 3 (dues shown in notices)
Less
Line 4 (carryover)
Equals
Line 5 (taxable lobbying & political expenses), and

Line 2c (lobbying & political expenses)
Less
Line 1 (dues, etc.)
Equals

The excess amount to be carried over to the following tax year and reported on PART III-B, line 2b (carryover lobbying & political expenses), or its equivalent, on the next year Form 990 along with the amounts the organization agreed to carryover in line 4.

Underreporting of lobbying expenses.

An organization is subject to the proxy tax for the 20XX reporting year for underreported lobbying and political expenses only to the extent that these expenses (if actually reported) would have resulted in a proxy tax liability for that year. A waiver of proxy tax for the tax year only applies to reported expenditures.

An organization that underreports its lobbying and political expenses is also subject to the section 6652(c) daily penalty for filing an incomplete or inaccurate return.

Examples

Organizations A and B:

1. Reported on the calendar year basis.
2. Incurred only grassroots lobbying expenses (did not qualify for the under \$2,000 in-house lobbying exception (*de minimis* rule)).
3. Allocated dues to the tax year in which received.

For Organization A — Dues, assessments, and similar amounts received in 20XX were greater than its lobbying expenses for 20XX.

Workpapers (for 20XX Form 990) — Organization A

1.	Total dues, assessments, etc., received	\$800	
2.	Lobbying expenses paid or incurred		\$600
3.	Less: Total nondeductible amount of dues notices	<u>100</u>	<u>100</u>
4.	(Subtract line 3 from both lines 1 and 2)	<u>\$700</u>	<u>\$500</u>
5.	Taxable amount of lobbying expenses		

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(smaller of the two amounts on line 4) \$500

TIP: The amounts on lines 1, 2, 3, and 5 of the workpapers were entered on lines 1, 2c, 3, and 5 of the 20XX Form 990, Schedule C, Part III-B.

Because dues, etc., received were greater than lobbying expenses, there is no carryover of excess lobbying expenses to PART III-B, line 2b of the year 20XX Form 990.

See the instructions for Part III-B, line 5 for the treatment of the \$500.

For Organization B— Dues, assessments, and similar amounts received in 20XX were less than its lobbying expenses for 20XX.

Workpapers (for 20XX Form 990) — Organization B

1	Total dues, assessments, etc., received	\$400	
2	Lobbying expenses paid or incurred		\$600
3	Less: Total nondeductible amount of dues notices	<u>100</u>	<u>100</u>
4	(Subtract line 3 from both lines 1 and 2)	<u>\$300</u>	<u>\$500</u>
5	Taxable amount of lobbying expenses (smaller of the two amounts on line 4)		\$300

TIP: The amounts on lines 1, 2, 3, and 5 of the workpapers were entered on lines 1, 2c, 3, and 5 of the 20XX Form 990, Schedule C, Part III-B.

Because dues, etc., received were less than lobbying expenses, excess lobbying expenses of \$200 must be carried forward to PART III-B, line 2b of the next year Form 990 Schedule C (excess of \$600 of lobbying expenses over \$400 dues, etc., received). The \$200 will be included along with the other lobbying and political expenses paid or incurred in 20## reporting year.

See the instructions for Part III-B, line 5 for the treatment of the \$300.

For Organization C — Dues, assessments, and similar amounts received in 20XX were greater than its lobbying expenses for 20XX and the organization agreed to carryover a portion of its excess lobbying and political expenses to the next year.

Workpapers (for 20XX Form 990) — Organization C

1.	Total dues, assessments, etc., received	\$800	
2.	Lobbying expenses paid or incurred		\$600
3.	Less: Total nondeductible amount of dues notices	<u>100</u>	<u>100</u>
4.	Less: Amount agreed to carryover	<u>100</u>	<u>100</u>
5.	(Subtract lines 3 and 4 from both lines 1 and 2)	<u>\$600</u>	<u>\$400</u>
6.	Taxable amount of lobbying expenses (smaller of the two amounts on line 5)		\$400

TIP: The amounts on lines 1, 2, 3, 4, and 5 of the workpapers were entered on lines 1, 2c, 3, 4 and 5 of the 20XX Form 990, Schedule C, Part III-B.

See the instructions for Part III-B, line 5 for the treatment of the \$400.